Investors: 3 Reasons Why 2017 Could Be Bad for the Loonie (and 3 Ways to Profit From the Trend)

Description

It was a particularly exciting year for the Canadian dollar, although it didn't result in a huge overall change.

Our currency started the year on a downward trend, temporarily dipping below US$0.70, even closing a couple of times below US$0.68. It then shot upwards, breaking through US$0.75 by March and even flirting with US$0.80 in early May. It was a heck of a recovery.

The loonie then slowly went back down again as commodity prices continued to languish, the Bank of Canada reported tepid economic growth, and Donald Trump got elected.

All in all, it all resulted in an uneventful year for the Canadian dollar. As I type this, the currency is up just 2.25% thus far in 2016, trading just below US$0.74. Yawn.

What will 2017 bring? Nobody really knows, but here are three reasons why it could be a bad year for the Canadian dollar.

Higher rates stateside

The U.S. Federal Reserve finally hiked its benchmark rate in December, and it looks poised to continue doing so in 2017. That's bad news for the Canadian dollar.

The logic is simple. Money will leave Canada and its lower rates and go to the U.S., where investors can get a better return.

Housing risks

Pundits have been saying for years that the Canadian housing market will crash, and 2017 could be the year we see it finally happen.

Vancouver's real estate market is struggling after the province passed a foreign buyers' tax. Calgary houses are getting hit hard by oil's decline. And other markets could very well be impacted by tougher mortgage qualification standards.

Such a crash would have many negative impacts on the economy, which would translate into a lower dollar.

The Trump factor

Donald Trump seems ready to start a trade war. China has been Trump's favourite target, but there's a chance Canada could get caught up in the fight too.

The president-elect is all about returning jobs to the United States. He realizes many Canadians are doing remote work for U.S. companies, something NAFTA makes possible. Trump could scrap the free trade agreement, which would hit Canada's economy pretty hard.

How to invest in such a world

Canadian investors can profit from this trend in a couple of ways. They can either load up on Canadian companies that export to the United States or companies that get a large percentage of their revenues from assets owned in the U.S.

Slate Retail REIT (TSX:SRT.UN) is an example of the latter. It owns grocery store–anchored real estate in secondary U.S. markets, cities like Atlanta, Charlotte, or Denver. Every nickel of revenue comes from the United States.

The company currently pays a distribution of US$0.0675 per share, which is good enough for a yield of 7.2%.

Oil is Canada's biggest export, accounting for almost 20% of all goods we send abroad. If the Canadian dollar declines, that's a big tailwind for operators like **Cenovus Energy Inc.** (TSX:CVE)(NYSE:CVE) which produce a lot of crude while paying input costs in Canadian dollars. US$60 per barrel crude could easily translate into $85 in local currency if the loonie is weak.

Many of Canada's large oil producers are flirting with 52-week highs. Don't let this perceived strength trick you. They're still much lower than in 2014.

Finally, **Fortis Inc.** (TSX:FTS)(NYSE:FTS) has been aggressively diversifying into the United States over the last few years. It has more than $45 billion worth of assets on its balance sheet, with approximately 60% of those assets in the United States.

The bottom line

I think 2017 could be a tough year for Canada's currency. There are a number of macroeconomic factors that could put pressure on it.

If you believe that will happen, the time to position your portfolio is now. Stocks like Cenovus, Slate Retail REIT, and Fortis will do well. And if the dollar doesn't move that much, all are dividend-paying stalwarts that should continue to perform well.

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